

505 Sansome Street
Suite 900
San Francisco
California 94111

GOODIN, MACBRIDE,
SQUERI, RITCHIE & DAY, LLP
Attorneys at Law

Telephone
415/392-7900
Facsimile
415/398-4321

February 15, 2006

Jeanne B. Armstrong

ALJ Thomas Pulsifer
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

**Re: Final Report of the Working Group to Calculate CRS Obligations
Associated with Municipal Departing Load and Direct Access**

Dear ALJ Pulsifer:

As discussed during our telephone call of Friday, February 3, 2006, this letter is being sent jointly by the Departing Load ("DL") Parties, Pacific Gas and Electric Company ("PG&E"), and Southern California Edison Company ("SCE") in an effort to clarify certain of the recommendations set forth in Section II-B of the above referenced report, "Discussion of Departing Load Methodology." It is anticipated that these clarifications will assist you in your deliberations on the report.

Through Recommendation DL #1, it was the intent of the DL Parties to advocate the use of the market price benchmark (comprised of a one year strip of power plus a capacity/resource adder) for the calculation of the DL Cost Responsibility Surcharge ("CRS"). Thus the benchmark which the DL Parties advance is the same as that which the Investor Owned Utilities ("IOU") and the Direct Access ("DA") Parties are jointly recommending for the calculation of the DA CRS. In the report, the IOUs expressed disagreement with Recommendation DL #1. The basis for the disagreement was that the DL Recommendation included use of the new benchmark to calculate the 2006 CTC Rate. It was never the intent of the DL Parties to recommend recalculation of the 2006 CTC rate utilizing the new benchmark. With this change, the IOUs and the DL Parties are in consensus and Recommendation DL # 1 should be viewed as a consensus recommendation.

Through Recommendation DL # 2, it was the intent of the DL Parties to advocate, for those DL customers that pay the DWR Power Charge, a calculation of such charge which

accommodates both the Statutory CTC charge and the Indifference Rate. Again, it was the intent of the DL Parties to recommend that the CRS for such DL customers be calculated in the same manner as the IOUs and DA Parties are jointly recommending for the calculation of the DA CRS. The IOUs expressed disagreement with Recommendation DL # 2, specifically stating that “once the DWR power charge and CTC rate components are set on a bottoms up basis, then the Indifference Rate should not be allowed to go negative.” Through Recommendation DL #2, however, the DL Parties were not advocating that the Indifference Rate be allowed to go negative for the purpose of offsetting other components of the CRS.¹ Rather, as SCE agreed with respect to the DA Parties, Recommendation DL # 2 was limited to the recovery of past CRS undercollections through a negative Indifference Rate. With this clarifying limitation, the IOUs and the DL Parties are in consensus on the limited issue of how to determine the effect of the indifference rate on DL customers who are responsible for the costs of DWR power. However, the IOUs believe that Recommendation DL # 2 is incomplete, in that it ignores the fact that the IOUs and the DL Parties disagree on whether the indifference calculation should have any role in the determination of the rates paid by DL customers who are not responsible for the costs of DWR power.²

¹ The DL Parties recommendation for the appropriate calculation once a negative Indifference Rate has been used to recover past undercollections is set forth in DL Recommendation #4.

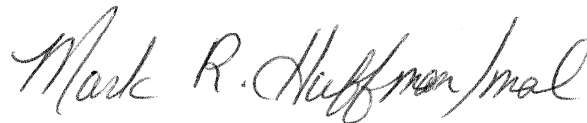
² Through other recommendations the DL Parties recommend, in effect, that the indifference calculation affect the rates paid by all DL customers, even those not responsible for the costs incurred by DWR. That is, the DL Parties recommend that the indifference calculation apply for all DL customers regardless of whether the customer is responsible for the costs of DWR power. By contrast, the IOUs recommend that, consistent with the agreement among the DA Agreement Parties, the indifference calculation affect the rates of a non-bundled customer only if the customer is responsible for DWR power

If you have any questions, please contact me at 415-392-7900.

Sincerely,

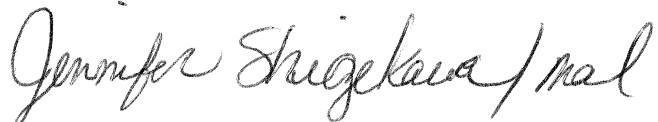

Jeanne B. Armstrong

Counsel for South San Joaquin Irrigation District
on behalf of the Departing Load Parities



Mark R. Huffman

Attorney for Pacific Gas and Electric Company



Jennifer Shigekawa

Attorney for Southern California Edison Company

cc: Steve Roscow, Energy Division
All Parties, R. 02-01-011